



August 11, 2006

Members of the Investment Policy Subcommittee
California Public Employees' Retirement System
Lincoln Plaza East
400 Q Street, Suite E4800
Sacramento, CA 94814

Re: Revisions to Global Public Real Estate Equity Securities (Global PREES) Policy

Dear Members of the Investment Policy Subcommittee:

Pension Consulting Alliance, Inc. ("PCA") was asked to review Staff's proposed modifications to the Global Public Real Estate Equity Securities ("Global PREES") Policy. On June 19, 2006, the Investment Committee approved Staff's recommendation to invest in a partnership with Adelante Capital Management to actively manage domestic PREES. The purpose of the recommendation was to invest in a more defensive strategy in the domestic PREES market, which is perceived as having potential for downward price corrections. As part of the defensive strategy, the manager is allowed to take short positions in domestic PREES. Currently, the Global PREES Statement of Investment Policy is silent on the issue of short positions. Accordingly, Staff indicated that they would modify the Global PREES Policy to allow for an external manager to take short positions.

PCA has reviewed the revised Global PREES policy document and concurs with the modifications which allow for externally managed portfolios to take short positions if Staff and CalPERS' Consultant determine that the external manager has the expertise to manage short positions.

We look forward to answering any questions at the Investment Policy Subcommittee meeting in August.

Very truly yours,

Nori Gerardo Lietz
Managing Director

Cc: Anne Stausboll
Al Fernandez
Judy Alexander
Jane Delfendahl
Pam Alsterlind
Eliza Bailey